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Blue-Chip CEOs Push for Limits on Greenhouse Gases

By Lisa Scherzer
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THE U.S. CLIMATE Action Partnership sounds like an improbable alliance. Ten industry giants — with business operations spanning the utilities, manufacturing, chemicals and financial-services sectors — joined forces with four environmental groups to pressure the Bush administration to set mandatory limits on carbon dioxide emissions. The coalition¹ is aiming to reduce greenhouse-gas emissions by 10% to 30% over the next 15 years.

When blue-chip firms like **DuPont** (DD²), **Duke Energy** (DUK³), **Caterpillar** (CAT⁴), **Alcoa** (AA⁵) and **PG&E** (PCG⁶), some of which are the world's biggest carbon producers, petition the government to enforce emissions controls, a notable shift seems to have occurred. The coalition is a sure sign the climate-change debate has become less of a debate and more of a consensus, says Peter Fusaro, president of Global Change Associates, an energy advisory firm in New York.

In addition to a nationwide limit on carbon dioxide emissions, the group is calling for a market-based emissions trading program. Under a "cap and trade" system, the government gives or sells permits to businesses, allowing them certain levels of emissions. Companies that emit less than allowed, or that build clean-burning plants, get credits they can then sell to companies that need them to meet the standard because they are emitting more than their designated amounts.

The absence of public policy on this issue thus far is prompting many industry leaders to call on Congress for decisive action, Fusaro says. They recognize that regulation is inevitable and want a hand in shaping the framework of any legislation that may come to pass. "There's a school of thought that says there could be even more stringent standards with the next president, so it's better to do this now," he says.

More importantly, companies are realizing the potential boon of new markets in clean-energy technologies. As of now, the U.S. has a voluntary emissions-trading system, through the Chicago Climate Exchange⁷. But what's currently an immature industry, says Fusaro, has the potential to become a multibillion-dollar commodity market. Fusaro, a member of the Chicago Climate Exchange, puts the market at \$750 billion in 20 years.

Bush, whose administration has rejected emissions caps in the past, mentioned nothing about a cap-and-trade system in his State of the Union address Tuesday night. His proposal called for a 20% reduction in the use of gasoline over the next decade by ramping up production of renewable fuels — a plan not ambitious enough, according to Fusaro and other critics. That may mean it's up to Congress to get serious about passing carbon-limiting legislation. "This is the beginning of a sea change," Fusaro says. "I think Congress now has figured out there is bipartisanship, there has been no action, and folks are concerned about this issue."

SmartMoney.com: Can you explain the background of the cap-and-trade system.

Peter Fusaro: The U.S. invented the cap-and-trade system. There's been a misconception that it came from the Kyoto accord, when actually we invented it. We've had successful acid rain and nitrous oxide [cap-and-trade] programs. What the industry is doing here is using the same tools we've had before. What you're doing with this system is giving industry some time to meet more stringent environmental standards. That's the game plan. There's no quick fix on reducing emissions. By setting up cap and trade, it's mandatory. Bush has only set up voluntary standards, and no one cares about that. What we really need is the federal government to step in.

SM: Why have these groups come together now to pressure the government to do something about global warming?

PF: Industry is at a turning point. There's too much pent-up demand for investment. There's too much regulatory uncertainty and not knowing what the rules are. We have efforts in California and New York, but that's at the state level. Industry has to join hands with environmentalists and propose mandatory limits. We have over 950 coal-fired plants in the U.S. The U.S. burns more coal than anywhere else in the world. That's what produces a lot of carbon dioxide emissions. Realistically, we need to shift into cleaner technology. Some of the players in this coalition sell that technology; there's nothing wrong with that. The onus falls on electric utilities; they need to start investing in plants and equipment, which they haven't done. There are no rules. There's a vacuum of public policy. We need mandatory standards. That's why industry is proposing this.

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"There's been a customer acceptance that I think is universal. People want to buy green energy, green architecture, green cars. It's shifted, and very rapidly."

Peter Fusaro
President
Global Change Associates

With cap and trade, you ratchet down emissions over time. That's worked well with the nitrous oxide programs.... What the market gets out of this is trading, liquidity and speculators. What you're really getting is regulatory certainty because there is a penalty for not complying with the law. The lead time for these standards is around four to seven years; so it's going to take time for engineers to build new power stations.

SM: Democrats are no doubt in favor of some kind of federal limit on carbon dioxide emissions. But do you think there's really enough support in both parties to get legislation like this passed?

PF: Both sides of Congress see these market-based solutions work, and you can't just sit there with no regulation. There are six bills [proposing emissions caps] making their way through Congress. The question is, do we have 60 votes? And do we do it now or do it later? There's a school of thought that says there could be even more stringent standards with the next president, so it's better to do this now. If you look at the science of climate change, we're running out of time. In the financial markets, there's a lot of interest in green technologies. There's a conundrum because there's plenty of capital out there to do this. There's a handful of venture capital funds pushing green technology. There's almost too much money.

Here are some statistics: The energy industry spends \$4 billion a year on research and development. The auto makers spend \$30 billion. So it's underinvested in terms of new technology. Now there's movement from hedge funds and private-equity funds investing in new technology — solar technology, battery storage. They're bringing solutions being bought by energy industry.

SM: How would the companies involved in the coalition benefit from a cap-and-trade system?

PF: General Electric (GE⁸) wins. They have gasification technology, wind-power technology. They realize there's much uplift in the market. They really are a green company. The others, electric utilities, see that there's an opportunity to green up their portfolio, some in clean coal, some in nuclear power, which obviously does not emit carbon. There's a beginning of a nuclear renaissance, which will probably take 10 years to build out. If you're Duke, you have nuclear power in your portfolio. So they get a different uplift from this. Alcoa probably benefits that way too. I think these companies realize they have a major business opportunity. We haven't gotten anywhere because there's no regulatory certainty. A lot new investment opportunity is being created.

SM: Such as?

PF: Financial markets move quickly. When the EU moved into emissions trading two years ago, first, there was uplift in equity valuations of companies. Second, banks and hedge funds started trading emissions credits. **Morgan Stanley (MS⁹)** is the largest emissions trader in the U.S. Financial markets will move very quickly into commoditizing the emissions allowances. Right now we don't have any; we have voluntary markets.

SM: What impact would carbon caps have on consumers and the economy?

PF: There would be a small amount of flow-through. Consumers wouldn't even see it. The latest Energy Information Administration report by the Department of Energy is saying that economic losses under one cap-and-trade proposal would be 0.1% by 2030. New technologies will create more jobs in engineering, financial services and energy services. There will be a net gain.... There are over 600 green-power programs in the U.S., where consumers could buy green energy [from their local utility], which costs more. I think there was a tipping point last year when green became good. There's been a

customer acceptance that I think is universal. People want to buy green energy, green architecture, green cars. It's shifted, and very rapidly.

My focus is on investors — what are the outcomes? What kind of investment opportunity is there? Now there's a handful of green hedge funds that invest in equities and commodities. There are about 12 of those. This is an immature market. There are some green ETFs [which focus on alternative-energy companies]. There are only a handful of multibillion-dollar companies. Most are microcaps. It's high risk. We don't know who will be the big winners. This is the beginning of a sea change. I think Congress now has figured out there is bipartisanship, there has been no action, and folks are concerned about this issue.

SM: As expected in his State of the Union address this week, Bush called for an increase in production of ethanol and other alternative fuels, and an increase in fuel-efficiency standards for vehicles. Where does this leave the Climate Action Partnership's call for a mandatory cap-and-trade system, which Bush has rejected before?


PF: Bush ducked cap and trade as a climate change solution. The reality is that he has left it to this session of Congress to craft cap-and-trade legislation. This will be done through the public policy hearing process this year. It is problematic whether Bush will sign the legislation.... He most probably will later this year, but his administration is not proposing any greenhouse gas solutions. So the coalition of business, environmental groups and bipartisan Congressional support will be the way forward this year. Realistically, it will take several years to implement any greenhouse gas legislation as regulations also take time to craft and implement.

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